

AREAS OF RECURRING TAXPAYER NONCOMPLIANCE

RETURNS PROCESSING CENTER

Following is a list of recurring errors the Electronic Funds Transfer staff observes. If these errors were corrected we would experience fewer "suspended" payments and improved payment posting as well as prevent the generation of proposed assessment notices to taxpayers.

- 1) Withholding and sales taxpayers failure to file quarterly recaps.
 - 2) Withholding and sales taxpayers filing monthly returns rather than quarterly recaps.
 - 3) Failure to adhere to Indiana's ACH credit addenda record requirements including:
 - a) Not using the correct 13-digit Indiana Taxpayer Identification Number (TID) in the addenda record, e.g. using the Federal ID number, or an incorrect form of the TID number.
 - b) Failure to provide accurate tax period end information in the addenda record.
 - c) Failure to include any information in the addenda record.
-

COMPLIANCE DIVISION

AERONAUTICS SECTION

The Aeronautics Section mailed 5,062 aircraft registration renewals for the 2001 with 300 owners in delinquent status as of December 2001. This translates into a 94% renewal compliance rate.

Indiana Code 6-6-6.5-2 states that any Indiana resident who owns an aircraft must register the aircraft within thirty-one (31) days from the purchase date. Any nonresident who bases an aircraft in this state for more than sixty (60) days shall register the aircraft with the department no later than sixty (60) days after establishing a base in Indiana.

Corporate Dissolutions, Reinstatement Certificates of Clearance, Grant Clearances and Letters of Good Standing

This section has received 1,725 notices of corporate dissolution. Indiana Code 6-8.1-10-9 provides that any corporate officer or director becomes personally liable for all taxes, penalties, interest, and fees associated with the collection of liabilities for a period of one (1) year from the date the department is notified of the corporation's dissolution. The corporate officers or directors become personally liable because the dissolving corporation distributed corporate assets before all liabilities were satisfied. Corporate officers or directors may be absolved of any personal liability by obtaining a Certificate of Clearance from the department. The Certificate of Clearance certifies that all liabilities due the department have been satisfied.

Corporations that are administratively dissolved by the Secretary of State's office for noncompliance must obtain a Reinstatement Certificate of Clearance from the department verifying the corporation is in good standing before they can be reinstated with the Secretary of State. The department issued 1,166 Certificates of Clearance and denied or closed 185 requests due to outstanding issues.

Corporations in the process of obtaining financial loans or Department of Commerce grant or award approval will request a Letter of Good Standing. The department has issued 462 Letters of Good Standing and denied 199 requests due to missing returns or unpaid liabilities.

Neighborhood Assistance Program

The total Neighborhood Assistance credits allowed in a fiscal year (July 1 to June 30) can not exceed \$2.5 million. The Indiana Department of Commerce verifies donations made to qualified Neighborhood Assistance Organizations. The Indiana Department of Revenue tracks the donations from various business entities allow-

ing 50% of the allowable donation as a credit against gross income tax, adjusted gross income tax, or supplemental net income tax. The department has processed 3,926 tax credits for the fiscal year ending June 30, 2002.

BANKRUPTCY SECTION/RESPONSIBLE OFFICER SECTION

The bankruptcy section reviewed 4,331 Chapter 11, Chapter 7 Assets and Chapter 13 bankruptcy notices to determine if a claim needed to be filed based upon outstanding tax liabilities and/or non-filed tax returns.

This area also handled 11,608 incoming phone calls as well as 106,103 pieces of incoming correspondence. Our section received 3,979 previously unfiled tax returns due to bankruptcy proceedings.

A total of 41 Responsible Officer billings were generated for trust taxes not paid by their businesses.

INDIVIDUAL/WITHHOLDING/CORPORATIONS TAX SECTION

The Individual Income Tax Section's mission is to identify and pursue non-filers, as well as to verify the accuracy of filed returns by utilizing information from the Internal Revenue Service, various Indiana State agencies, other state taxing agencies, and anonymous informants. Our standard compliance projects and findings for Fiscal Year 2002 are as follows:

Federal Audits

Information is obtained from the Internal Revenue Service concerning agreed federal tax audit reports to the department. If taxpayers do not amend their Indiana Individual income tax return to report the Indiana adjustments resulting from the federal modifications detailed in the audit findings, a tax assessment is generated.

CP2000 Unreported Income

The department obtains data from the Internal Revenue Service regarding taxpayers who failed to report all taxable income. This could be income derived from wages, interest, dividends, or non-employee compensation. These types of income are reported on W-2's or Form 1099 information returns. An assessment is generated if the income was not reported on the original return, or an amended return. The project resulted in 7,117 taxpayer assessments.

Federal/State Cross check

The department obtains magnetic tape information from the Internal Revenue Service disclosing adjusted gross income and exemptions reported on the federal returns. This file is compared to the state reported adjusted gross and exemptions from our master file. Automatic billings are then generated for any state and county tax due on the differences. This Project resulted in 15,181 taxpayers being assessed.

Withholding Discrepancies

A comparison is made between taxpayers' annual WH-3 Forms with the state and county withholding payments (from Form WH-1) made during the year. If underpayments exist, taxpayers are assessed the differences. The project resulted in 326 taxpayers being assessed.

Individual Desk Audits

Individual desk examinations are performed, based on anonymous sources or submissions from other divisions within the department. The examination may consist of verifying income reported, credits/deductions taken, or the amount of refund requested. Individual desk audit resulted in 75 assessments.

Voluntary Compliance Program

Taxpayers who discover that they may have nexus with Indiana, but have not filed returns, frequently contact the department and request to enter into a Voluntary Compliance Agreement. These taxpayers often times were confused or were unaware of filing requirements for income tax and sales/use taxes in Indiana. Tax due is not forgiven, nor is interest abated.

NOT-FOR-PROFIT/CHARITY GAMING SECTION

This section is responsible for determining organizations' not-for-profit status and for licensing qualified not-for-profit organizations for bingo, festivals, raffles, door prizes and charity gaming nights. The licensing of manufacturers and distributors to sell tip boards, punchboards and pull-tabs is performed by this section.

A total of \$4,770,857.00 in fees was collected from the following licenses issued:

Annual Bingo	913
Charity Game Night	209
Door Prize	6
Festival	293
Raffle	600
Special Bingo	<u>128</u>
Total Licenses Issued	2,149

The following gaming license fees were collected:

Gaming License Fees	\$4,770,857.00
Manufacturers License	\$ 48,000.00
Distributors License	<u>\$ 118,000.00</u>
Total Fees Collected	\$4,936,857.00

During fiscal year 2002, the Charity Gaming Section conducted six (6) training seminars, which were held in Plymouth, Fort Wayne, Indianapolis, Terre Haute, Madison and Jasper. Approximately 317 representatives from not-for-profit organizations attended these seminars which covered the following topics:

- Not-for-Profit Application and Reports
- Sales Tax Registration and Forms
- Single Event Forms
- Renewal Applications
- Use of Charity Gaming Proceeds Leases
- Allowable Expenses
- Illegal Gaming Devices
- Fines and Penalties
- Protest Hearing Procedures

Future Charity Gaming Training & Education

The department will be sponsoring three (3) training seminars around the state during the next fiscal year. These seminars will be held in Indianapolis, Plymouth and Madison. The topics for these seminars will be determined at a later date.

UTILITY/REFUND/FUEL/SALES SECTION

Utility company requests for 6,734 exemptions of sales tax were reviewed and processed. Approximately 6,073 of the applicants qualified for a 100% exemption on their purchase of public utility services. These applicants were primarily government, not-for-profit organizations and those companies engaged in manufacturing whose use of the utility was predominately for an exempt purpose. Some 294 restaurants, industrial processors, grocers, etc. received less than total exemptions. These companies must pay the total sales tax charged by utility companies and then file an annual refund claim for the exempt percentage granted. Of the 368 applications denied, most were denied as a result of desk examination where the applicant failed to provide necessary information to support their refund request.